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FEDERAL-PROVINCIAL FISCAL ARRANGEMENTS



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## FEDERAL-PROVINCIAL FISCAL ARRANGEMENTS

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17 October 1986  
*Revised 14 October 1992*



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Available in Canada through  
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Canada Communication Group -- Publishing  
Ottawa, Canada K1A 0S9

Catalogue No. YM32-1/86-23-1992-10E  
ISBN 0-660-14862-5

N.B. Any substantive changes in this publication which have been made since the preceding issue are indicated in **bold print**.

CE DOCUMENT EST AUSSI  
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## FEDERAL-PROVINCIAL FISCAL ARRANGEMENTS

### ISSUE DEFINITION

Fiscal arrangements are the nerve centre of federal-provincial relations, not only because of the immense resources that are devoted to them but also because, to a great extent, they shape the economic environment for both the federal government and the provinces. Moreover, because they form the financial basis of the Constitution, their importance is more than strictly economic. Despite this, they remain a complicated and often misunderstood subject.

One of the main objectives of fiscal arrangements is to ensure a certain stability in provincial revenues, i.e., to maintain a fiscal balance among and within the provinces in the Canadian federation. From this perspective, the fiscal arrangements reflect fundamental characteristics of Canada's economic and political environment, such as the relative weight and importance of the federal and provincial governments, their respective autonomy, their interdependence, and the division of their responsibilities. The fiscal arrangements, which are part of Canada's past as well as its present and future, are evolving politically and economically around such concepts as equity and efficiency, centralization and decentralization, and federal and provincial jurisdiction.

### BACKGROUND AND ANALYSIS

At the heart of federal-provincial relations in fiscal matters lies the *Federal-Provincial Fiscal Arrangements and Federal Post-Secondary Education and Health Contributions Act, 1977*, hereinafter referred to as the *Fiscal Arrangements Act*. The programs



covered by the *Fiscal Arrangements Act* account for 75% of all federal-provincial transfers. Other major federal-provincial programs, like the Canada Assistance Plan and the regional development agreements, are outside its scope. The *Fiscal Arrangements Act* coordinates taxation and ensures the transfer of federal funds toward the main social programs that come under provincial jurisdiction. This document will focus largely on three important elements in the Act: (1) transfer payments; (2) tax-collection agreements; and (3) federal contributions to post-secondary education and health care.

#### A. Historical Background

Fiscal relations between the federal government and the provinces began with Confederation. Indeed, it was partly the payment of grants to the provinces, to compensate them for the loss of certain fiscal powers, that sealed the agreement on Confederation. Subsequently, government intervention in economic and social matters became more and more marked. This evident desire on the part of government to shoulder more and more responsibilities led to changes in the jurisdictional structure: from being vertical it became horizontal, with each level of government empowered to exercise its own constitutional functions. The growth and division of responsibilities forced governments to develop their fiscal relations further.

The Great Depression of the 1930s was a body blow to the initial forms of federal assistance and to the provincial fiscal structures. In 1940, the Royal Commission on Dominion-Provincial Relations (the Rowell-Sirois Commission) recommended that the federal government take over the debts accumulated by each province and be responsible for assistance to the unemployed. The Commission also favoured a system of federal transfers to the less well-off provinces in order to reduce regional disparities. In return, the provinces would have to give up their rights to collect personal and corporate income taxes and to impose succession duties. The Commission's recommendations were rejected, but because of the economic situation brought about by the Second World War, the federal government managed to persuade the provinces to stop collecting personal and corporate income taxes. In exchange, the provinces received cash transfer payments, calculated on the basis of number of inhabitants; these were known as "tax rental agreements," and proved to be the forerunners of our existing fiscal arrangements.



Even though the Rowell-Sirois recommendations were rejected at the time, they were a turning point in the evolution of federal-provincial fiscal arrangements. Some of the recommendations were slower than others to re-emerge in concrete form, but nearly all of them can be found in the existing system of fiscal arrangements.

#### B. Fiscal Arrangements From 1982 to 1987

Negotiations on the 1982-1987 fiscal arrangements, which began in the fall of 1980, concluded on 31 March 1987. The period covered by the 1982-1987 fiscal arrangements was marked by the recession of the early years of the decade and by budget restrictions designed to reduce the federal deficit, a situation that led to confrontations between the two levels of government.

During the negotiations, the federal government hoped to save \$1.5 billion on social transfers to the provinces in 1982-83 and 1983-84. It also set up a parliamentary task force to examine the programs authorized under the *Fiscal Arrangements Act*. In his November 1981 budget, the then Minister of Finance announced nine changes in the fiscal arrangements, three of which were protested by the provinces: changes in equalization standards, elimination of the 1972 guaranteed revenues, and final adoption of the terms of Established Programs Financing a year before program norms were defined. When discussions led to a stalemate, the federal government acted unilaterally by bringing in Bill C-97, which amended vital sections in the *Fiscal Arrangements Act*. The bill came into force on 7 April 1982.

##### 1. Equalization

Equalization is the mechanism by which the central government gives the poorer provinces transfer payments so that they can provide their residents with social services comparable to those in the wealthier provinces. This horizontal fiscal imbalance is tied to the problems of disparities in the financial abilities of various provincial governments to carry out identical constitutional functions. Equalization is a historical component of Canadian federalism. It is so far the sole transfer payment program to be spelled out in the country's Constitution.

During the term of the fiscal arrangements from 1982-1987, six provinces were the chief beneficiaries of equalization payments; namely, the four Maritime provinces, Quebec and Manitoba. However, the equalization formula resulted in a payment of \$146.8 million to



Saskatchewan in January 1987. This adjustment was necessary in view of a slowdown in this province's economic growth.

Bill C-97 lengthened the list of sources of revenue from 29 to 33 by including total petroleum and gas revenues; previously, only 50% of such revenues had been taken into account. The inclusion of total petroleum resource revenues enlarged the tax base and the amount of equalization payments. The biggest change introduced in 1982, however, was the establishment of a new method of calculating equalization standards: the former national average of per capita fiscal return was replaced by an average representing the fiscal returns of Ontario, Quebec, Manitoba, Saskatchewan and British Columbia. These are all provinces that receive very little in the way of revenues from petroleum resources, and consequently their equalization standard (i.e., the minimum level of fiscal capacity to which each province is entitled) was equivalently reduced.

Because the new formula imposed by the central government had the potential to cause budgetary problems for a number of the provinces, a transitional system of supplementary payments, due to end in March of 1985, was introduced. It was expected at that time that an expanding economy would reduce the impact of budget cuts caused by the formula. This did not happen. The Main Estimates tabled in February 1985 showed that equalization payments for 1985-86 to Quebec, Manitoba, Nova Scotia and Prince Edward Island had dropped by a total of \$390 million under the existing legislation. Under pressure from the provinces, the Minister of Finance announced in April 1985 that supplementary payments would again be made to the provinces in 1985-86, so that the drop in equalization payments decreased to \$207 million.

## 2. Tax-Collection Agreements

No major changes were made in the agreements on collection of taxes under the 1982-87 arrangements. It should be noted, however, that Alberta has since January 1981 been collecting corporate income tax itself, as do Ontario and Quebec. Only Quebec continues to collect personal income taxes.

In addition, the guarantee protecting provincial income tax revenues against reductions in the federal tax base was extended to 31 March 1987. Since the introduction of the guarantee program in 1977, only one province has been eligible to receive a payment, namely Saskatchewan, which was awarded \$4.3 million in 1985-1986.



### 3. Established Programs Financing

The object of these fiscal arrangements is to provide financial assistance to the provinces for insured health services, complementary health care and post-secondary education. Because programs under provincial jurisdiction are jointly funded, and because of the unconditional character of federal contributions, Established Programs Financing (EPF) probably generates more disputes than any of the other fiscal arrangements between the central government and the provinces.

Bill C-97 amended the *Fiscal Arrangements Act* by replacing the previous cost-sharing formulas with a formula under which federal contributions are determined independently of the costs of the provincial programs. The entitlement of each province for insured health services is equal to the national average federal contribution per capita in a base year (1975-76), corrected by a progression factor based on the rate of growth of the Canadian economy and multiplied by the number of inhabitants in the province. The entitlements for post-secondary education (PSE), which are determined separately, are corrected in the same way by the progression factor using PSE contributions in 1975-76 as the standard of comparison.

The total EPF tax transfer represents 13.5 points on personal income tax and 1 point on corporate income tax. This transfer is subject to the representative average standard within the framework of the general equalization formula. Tax transfers are divided up according to the following ratios: 67.9% for health services and 31.1% for PSE.

Cash payment is equal to the difference between entitlement and the value of tax transfers, which ensures that the federal contribution per capita for funding these programs remains equal.

In recent years, the provinces expected an increase in federal contributions for PSE and health care. The central government, however, trapped by a growing deficit, was quick to cast cold water on these expectations. The federal budget of May 1985 in fact proposed a reduction in contributions, designed to make possible annual savings of around \$2 billion between then and the end of the 1990-91 fiscal year.

Bill C-96, which received Royal Assent on 27 June 1986, finalized this strategy of compressing federal payments. Under the changes it introduced, EPF transfers continued to



be tied to economic and demographic growth, but the per capita growth rate was two percentage points lower than under the old formula.

### C. The *Canada Health Act*

The *Canada Health Act*, in force since 1 April 1984, replaced the *Hospital Insurance and Diagnostic Services Act* and the *Medical Care Act*. Not only is it the authoritative piece of legislation with regard to Established Programs Financing, it also spells out the conditions whereby federal funds are awarded for insured and complementary health care service provided in accordance with provincial legislation. This Act has strained federal-provincial relations somewhat since it standardizes payment terms and conditions and therefore influences unilaterally provincial health care policies. Manitoba and Saskatchewan proceeded to ban extra billing in the fall of 1985. More recently, in June 1986, Ontario enacted similar legislation, making the province eligible to receive \$106 million from the federal government, money that had been withheld since July 1984. In so doing, the province was taking advantage of a provision in the Act stipulating that if a province banned extra billing before 1 April 1987, the total amount withheld would be reimbursed.

### D. Fiscal Arrangements For 1987-1992

Each round of federal-provincial talks on fiscal arrangements has been marked by the economic situation of the day. The 1987-1992 talks were no exception.

Still grappling with a troublesome deficit, the federal government moved to restrict the growth in health care and post-secondary education funding for 1987-1992. Whereas the annual rate of growth of these transfer payments had been 7.8% over the 1982-87 period (Table 1), estimates placed it at about 5% for the following five-year period. The provinces countered that Ottawa was being blatantly unfair - in a way that was difficult to reconcile with the thrust of the Constitution - and that this measure would, in the medium term, impede the efficiency of provincial health care and education systems.

Moreover, it seems that equalization payments are always an important part of the fiscal negotiations between the federal government and the provinces. The latter are asking for an increase in equalization payments to offset the cuts in health care and education funding,



whereas Ottawa wants to proceed with its program to reduce transfer payments. Experience has shown that attempts to trim equalization payments have been only moderately successful, primarily because of the pressures exerted by the provincial governments. Nevertheless, the federal government has been successful in restricting the rate of growth of its transfer payments (Table 2).

Equalization payments are an integral part of the provincial budgetary process. They have an impact on government policy formulation and its financing. Provincial politicians and officials in charge of assessing the cost of a particular measure always calculate the portion of the funding assumed by the federal government. This method of calculation or this reliance on Ottawa means that when the latter tries to review its financing programs (as for 1987-1992) the provinces find themselves in hot water and accuse the federal government of destabilizing their financial situation. This dependence has proved to be a vicious circle. It should be noted, however, that this problem is not unique to Canada. Other federalist countries, such as Australia, West Germany and, to a lesser extent, the United States, are also faced with this imbalance between the central government and the provinces (or the states) insofar as public finances are concerned. This problem generally worsens when the rate of growth of the economy slows or when budget deficits soar.

As the federal government sat down at the bargaining table to renew fiscal arrangements for 1987-1992, the challenge it faced was twofold: on the one hand, it had to accept purely economic constraints such as the deficit and, on the other hand, it had to assume its political responsibilities as the primary agent in charge of redistributing Canada's wealth in an equitable, efficient manner. The provinces had to reconcile their special financial needs with the economic interests of the country as a whole, the ultimate goal of the fiscal arrangements.

Table 1  
Federal Government Transfer Payments to the Provinces For Health Care and  
Post-Secondary Education (PSE) Under Established Programs Financing  
(in millions of dollars)

	Cash Payments			Tax Transfers			TOTAL (1)
	Health	PSE	Total Cash Payments	Health	PSE	Total Cash Payments	
1981-1982	4,121	1,604	5,725	3,604	1,705	5,309	11,035
1982-1983	4,644	1,804	6,448	4,038	1,911	5,949	12,398
1983-1984	5,466	2,027	7,493	4,123	1,951	6,074	13,569
1984-1985	6,028	2,114	8,142	4,445	2,103	6,548	14,692
1985-1986	6,253	2,181	8,434	4,919	2,328	7,247	15,681
1986-1987	6,484	2,229	8,723	5,422	2,566	7,988	16,711
1987-1988	6,489	2,194	8,683	6,092	2,883	8,975	17,658
1988-1989 (2)	6,668	2,229	8,898	6,626	3,136	9,762	18,660
1989-1990 (3)	6,944	2,303	9,247	7,165	3,391	10,556	19,803
1990-1991 (4)	6,370	2,015	8,385	7,972	3,773	11,745	20,130

(1) The total may differ because of rounding-off provisions.

(2) First preliminary adjustment, March 1990.

(3) Second adjustment in the calculation of advance payments, December 1989.

(4) Second adjustment in the calculation of advance payments, December 1990.

Source: Department of Finance, Federal-Provincial Relations Division.

Table 2  
Equalization Payments to the Provinces  
(in millions of dollars)

Estimated Amount of Equalization Entitlements

1981-1982	4,395
1982-1983	4,865
1983-1984	5,229
1984-1985	5,422
1985-1986	5,143
1986-1987	5,775
1987-1988	6,589
1988-1989	7,261 (1)
1989-1990	7,820 (2)
1990-1991	8,272 (3)

(1) Seventh official estimate, March 1990.

(2) Fifth official estimate, March 1990.

(3) Third official estimate, March 1990.

Source: Department of Finance, Federal-Provincial Relations Division.



During the course of the negotiations, one of the main points of contention was the method of calculating municipal revenues. These revenues are the second most important source of tax revenue on which equalization payments are based; they come after personal income tax and before the provincial sales tax. However, the basic problem has remained unchanged: federal government offers have never corresponded to the amounts demanded by the provinces. Talks undertaken to resolve the dispute focused on the following six sources of revenue:

- a) provincial sales taxes
- b) provincial revenue from coal
- c) provincial revenue from potash
- d) lottery revenues
- e) provincial and local real estate taxes
- f) various provincial revenues and taxes

Although the provinces continued to express their dissatisfaction throughout the course of the negotiations, federal Finance Minister Michael Wilson nevertheless proceeded to table in the House of Commons, on 11 March 1987, Bill C-44 respecting the renewal of the fiscal arrangements for the period from 1987-1992. Under the terms of the bill, the annual growth rate of equalization payments was to be between 5 and 6% (Table 3). This rate of growth does not quite meet provincial requirements, but corresponds exactly to the entitlements established under the equalization formula. It should be noted that sound economic performance by some of the recipient provinces tends to slow the rate of growth of equalization payments. Moreover, Mr. Wilson stated at the time he tabled Bill C-44 that the federal government was absolving the provinces from reimbursing a \$270 million overpayment made over the previous two years. Bill C-44 received Royal Assent on 14 April 1987. It was retroactive to 1 April, thus enabling the provinces to continue receiving their payments on an uninterrupted basis.

Table 3  
Estimated Amount of  
Equalization Entitlements by Province  
1988-1989, 1989-1990, 1990-1991  
(in millions of dollars)(1)

	1988-1989	1989-1990	1990-1991
Newfoundland	847	904	960
Prince Edward Island	177	195	206
Nova Scotia	819	873	925
New Brunswick	788	867	930
Quebec	3,365	3,567	3,865
Manitoba	808	842	881
Saskatchewan	<u>458</u>	<u>572</u>	<u>504</u>
	7,261	7,820	8,272

(1) The total may differ because of rounding-off provisions.

Source: Department of Finance, *Fiscal Equalization*.

When the federal government brought down its budget of April 1989, it announced its intention of continuing to slow the growth rate of EPF transfer indexation. The tabling of Bill C-33 on 27 June 1989 was, in a sense, Phase II of the government's financial strategy for controlling the deficit by reducing federal transfer payments to the provinces. It was a virtual replica of Bill C-96, which, by coincidence, had come into effect precisely three years earlier, on 27 June 1986. (Bill C-33 was revoked when Bill C-69 received Royal Assent on 1 February 1991.)

Bill C-33 would have provided for a one-percentage-point reduction in the annual growth rate of transfer payments, starting in the 1990-91 fiscal year. By comparison, Bill C-96 three years earlier had reduced the growth rate of EPF transfer payments by 2% per year.

Bill C-33 would have maintained the provisions under which EPF transfers were calculated on the basis of an identical amount for each inhabitant, and their growth on the basis of national economic performance and the population of each province. In addition, as the federal Department of Finance's technical documents note, the transfers are protected so that their overall growth rate cannot fall below that of inflation.



Essentially, Bill C-33 would only have changed the escalator used in calculating transfer payments. The escalator is a moving average of three years of per capita GNP growth. Thus, for the 1989-90 fiscal year, the escalator was:

the cube root of:  $\frac{(\text{per capita GNP for 1988})}{(\text{per capita GNP for 1985})}$  less 0.02

If Bill C-33 had passed, the escalator after 31 March 1990 would have been:

the cube root of:  $\frac{(\text{per capita GNP for 1989})}{(\text{per capita GNP for 1986})}$  less 0.03

It is useful to bear in mind that the *Federal-Provincial Fiscal Arrangements Act* provides that the federal Finance Minister "may" give each province a special adjustment payment so that the amount that may be paid to all the provinces in the course of a fiscal year shall increase at least at the same rate as the implicit price deflator of the gross national expenditure. Contrary to this provision in the Act, however, the Finance Department's technical documents still say that EPF transfers are protected so that their overall growth rate cannot fall below the rate of inflation. Although this is true, it gives the impression at first glance that the rate at which the transfers increase is tied to the consumer price index, which is not the case. Since the introduction of this section in the Act, the Minister has never had to intervene to make an adjustment payment, because the EPF growth rate has so far been over the inflation rate.

It would have been interesting to watch the progression in EPF transfer rates after the introduction of the 7% goods and services tax (GST) on 1 January 1991. According to the Finance Department's forecast, the GST was expected to bump up the inflation rate by 1.25%. The inflation rate was already taken into account in the EPF calculating formula through the use of the escalator, but the combined effect of the further 1% reduction in transfer growth rates (because of Bill C-33) and the time lag caused by the use of the three-year moving average might have led to a growth rate below the rate of inflation, as estimated by the implicit price deflator. If that had happened, the provinces might well have raised questions about the provision enabling the federal Minister of Finance to make adjustment payments.

However, the federal budget of 20 February 1990 disrupted this scenario; the Minister of Finance announced a two-year freeze on EPF transfers, at their 1989-90 per capita

level. Bill C-69, tabled 15 March 1990, provided that EPF transfers would continue to grow at the same rate as the population of each province, that is, at about 1.0% nationally (Table 4). Starting in 1992-1993, transfers will once again grow as announced in the 1989 Budget (and as provided for in Bill C-33, which, as has been mentioned, was automatically revoked when Bill C-69 received Royal Assent on 1 February 1991). It should be noted that the growth in EPF transfers will at that point be limited, with the lower level set by the deflator, and the upper level calculated using the escalator.

Like its predecessor, the February 1991 federal budget once again altered the pattern of EPF growth. In this budget, Finance Minister Michael Wilson announced that the freeze already imposed for 1990-91 and 1991-92 would be extended to 1994-95. Over the next five-year period, the extended freeze will mean savings of \$2.34 billion for the federal government (Table 5).

Apart from being accused of shifting the burden of its deficit on to the provinces, the federal government has another problem caused by the freeze on per-capita EPF transfers, a legislative one, particularly delicate in an era of constitutional debate. The *Canada Health Act* sets out national conditions and standards for health care that the provinces must meet if they are to receive transfer payments. However, because of the prolonged freeze, certain provinces could cease receiving EPF-associated cash transfers between now and 1996. If that happened, Ottawa could no longer impose national standards. To cope with this eventuality, the Minister of Finance's budget included an announcement that the federal government would be amending the *Fiscal Arrangements Act* to entitle it to hold back other cash transfers to the provinces. As a means of enforcing national standards, the Minister on 31 May 1991 tabled Bill C-20, An Act to amend certain statutes implementing the budget tabled in Parliament on February 26, 1991. The bill finally received Royal Assent on 17 December 1991. In the face of provincial protests, the federal government expanded the definition and scope of federal payments, in order to maintain its power to impose national standards; surprisingly, once the bill passed, the provinces seemed to resign themselves to the change. However, the debate may simply have moved to a higher level, that of the federal government's constitutional offers.



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\* EPF includes equalization associated with the tax transfer. Because this is paid under the Equalization Program, it is included in that program as well. Totals are adjusted to avoid double counting.

\*\* Totals include entitlements for the NWT and the Yukon of \$80 million in 1990-91 and \$82 million in 1991-92. Savings are \$3 million in 1990-91 and \$5 million in 1991-92.

February 20, 1990

Table 5  
ESTIMATED EPF ENTITLEMENTS BASED ON 1991 BUDGET PROPOSALS, 1991-1992 TO 1995-1996  
(MILLIONS OF DOLLARS)  
(See Introductory Notes on Page 1)

	Nfld	PEI	NS	NB	QUE	ONT	MAN	SASK	ALTA	BC	NWT	YKN	TOTAL
<b>1991-1992</b>													
HEALTH													
CASH	157	36	246	199	1,072	2,173	301	275	720	876	14	7	6,077
TAX	153	35	238	193	2,593	3,163	292	267	638	841	15	7	8,434
TOTAL	310	71	484	392	3,665	5,337	593	541	1,358	1,717	29	14	14,511
PSE													
CASH	53	12	83	67	252	657	101	92	246	295	5	2	1,865
TAX	72	16	113	91	1,227	1,497	138	126	302	398	7	3	3,992
TOTAL	125	29	195	158	1,479	2,154	239	219	548	693	12	6	5,856
TOTAL													
CASH	210	48	328	266	1,324	2,830	402	367	966	1,171	19	10	7,942
TAX	225	51	351	284	3,821	4,660	430	393	940	1,238	22	10	12,426
TOTAL EPF	435	99	680	550	5,144	7,490	833	760	1,906	2,410	41	20	20,368
<b>1992-1993</b>													
HEALTH													
CASH	148	34	232	187	911	2,011	284	259	694	841	13	7	5,622
TAX	163	37	256	207	2,779	3,412	314	285	688	906	16	7	9,070
TOTAL	311	71	487	394	3,690	5,423	598	544	1,382	1,747	29	14	14,691
PSE													
CASH	48	11	76	61	174	574	93	85	232	276	4	2	1,637
TAX	77	18	121	98	1,315	1,615	148	135	326	429	8	4	4,292
TOTAL	125	29	197	159	1,489	2,189	241	220	558	705	12	6	5,929
TOTAL													
CASH	196	45	308	249	1,086	2,585	377	343	926	1,118	18	9	7,258
TAX	240	55	376	304	4,093	5,027	462	420	1,014	1,334	24	11	13,362
TOTAL EPF	436	100	684	553	5,179	7,612	839	764	1,940	2,452	41	20	20,620
<b>1993-1994</b>													
HEALTH													
CASH	137	32	216	174	727	1,811	265	241	662	801	12	6	5,082
TAX	175	40	275	222	2,992	3,699	338	307	746	930	17	8	9,801
TOTAL	312	72	491	396	3,719	5,510	603	548	1,408	1,781	29	14	14,883
PSE													
CASH	43	10	68	55	85	473	83	76	215	255	4	2	1,360
TAX	83	19	130	105	1,416	1,751	160	145	353	464	8	4	4,638
TOTAL	126	29	198	160	1,501	2,224	244	221	568	719	12	6	6,006
TOTAL													
CASH	100	42	283	229	811	2,284	349	316	877	1,056	16	8	6,451
TAX	257	59	405	327	4,409	5,449	498	453	1,100	1,443	26	12	14,429
TOTAL EPF	457	101	689	556	5,220	7,733	847	769	1,976	2,499	41	20	20,880

Totals may not add due to rounding.



Table 5 (cont'd)

ESTIMATED EPF ENTITLEMENTS BASED ON 1991 BUDGET PROPOSALS, 1991-1992 TO 1995-1996  
(MILLIONS OF DOLLARS)  
(See Introductory Notes on Page 1)

	MFJD	PEI	NS.	NB	QUE	ONT	MAN	SASK	ALTA	BC	NMT	YKN	TOTAL
1994-1995													
HEALTH													
CASH	125	29	198	160	526	1,594	244	222	627	754	11	5	4,496
TAX	167	43	296	239	3,222	4,000	364	330	807	1,059	19	9	10,575
TOTAL	312	72	494	398	3,748	5,594	609	552	1,434	1,813	30	14	15,071
PSE													
CASH	38	9	59	48	0	364	73	66	197	231	3	2	1,089
TAX	89	21	140	113	1,525*	1,893	172	156	382	501	9	4	5,005
TOTAL	126	29	199	161	1,513	2,257	246	223	579	732	12	6	6,082
TOTAL													
CASH	163	38	258	208	526	1,958	317	288	823	985	14	7	5,595
TAX	276	64	436	351	4,746	5,893	537	487	1,189	1,560	28	13	15,580
TOTAL EPF	438	102	694	559	5,260	7,851	854	775	2,012	2,545	42	20	21,153
1995-1996													
HEALTH													
CASH	123	29	195	157	433	1,532	241	218	635	759	10	5	4,338
TAX	199	46	316	254	3,448	4,296	390	353	867	1,137	20	10	11,337
TOTAL	322	75	512	411	3,881	5,828	631	571	1,502	1,896	30	15	15,674
PSE													
CASH	36	8	57	46	0	319	70	63	196	227	3	1	1,026
TAX	94	22	150	120	1,632*	2,033	185	167	410	538	10	5	5,365
TOTAL	130	30	206	166	1,566	2,352	255	231	606	765	12	6	6,326
TOTAL													
CASH	158	37	252	203	433	1,851	311	281	831	987	13	7	5,363
TAX	293	68	466	375	5,080	6,329	575	520	1,277	1,675	30	14	16,702
TOTAL EPF	452	105	718	577	5,447	8,181	885	802	2,108	2,661	43	21	22,000
CUMULATIVE 1991-1992 TO 1995-1996													
HEALTH													
CASH	690	160	1,087	877	3,669	9,121	1,335	1,215	3,336	4,031	60	30	25,615
TAX	877	201	1,381	1,115	15,034	18,570	1,698	1,542	3,746	4,923	87	41	49,217
TOTAL	1,567	361	2,468	1,991	18,703	27,692	3,034	2,756	7,084	8,954	147	71	74,830
PSE													
CASH	218	50	343	277	511	2,387	420	382	1,086	1,284	19	9	6,985
TAX	415	96	654	527	7,115	8,789	803	729	1,773	2,330	42	20	23,292
TOTAL	632	146	995	804	7,548	11,176	1,225	1,114	2,859	3,614	60	30	30,199
TOTAL													
CASH	907	210	1,429	1,155	4,180	11,508	1,756	1,595	4,423	5,317	80	41	32,599
TAX	1,291	297	2,034	1,641	22,149	27,358	2,502	2,273	5,520	7,250	130	60	72,509
TOTAL EPF	2,198	507	3,465	2,795	26,250	38,867	4,258	3,870	9,942	12,567	208	101	105,031

\* In 1994-95 and 1995-96, the value of the Post-secondary Education tax transfer to Quebec exceeds the total PSE entitlement by \$12 million and \$65 million, respectively. See page 1 for an explanation.  
Totals may not add due to rounding.

## CHRONOLOGY

- 1937 - Creation of the Royal Commission on Dominion-Provincial Relations (Rowell-Sirois Commission); the Commission recommended a system of grants based on the national standard. These agreements formed the basis for the present equalization system.
- 1941 - Wartime fiscal arrangements: withdrawal of the provinces from certain areas of taxation.
- 1947 - Adoption by Parliament and by all provinces (with the exception of Quebec and Ontario) of the *Dominion-Provincial Tax Rental Agreements Act*; the tax rental agreement was extended for five years. Newfoundland passed similar legislation in 1949.
- 1952 - Adoption by the federal government and by all provinces, with the exception of Quebec, of the *Tax Rental Agreements Act*.
- 1954 - Quebec introduced a personal income tax.
- 1957 - Parliament passed the *Hospital Insurance and Diagnostic Services Act*; four years later, in January 1961, all the provinces had a hospital insurance plan. Equalization was now a specific provision of the *Federal-Provincial Tax-Sharing Arrangements Act*.
- 1958 - Fiscal arrangements were made to include provisions for awarding adjustment grants to the Atlantic provinces.
- 1961 - Adoption by Parliament of the *Federal-Provincial Fiscal Arrangements Act, 1962-1967*; equalization was now based on the national average rather than on the average of the two leading provinces.
- 1964 - Creation of the Tax Structure Committee to examine fiscal arrangements.
- 1965 - Adoption of the *Established Programs (Interim Arrangements) Act*. The legislation enabled the provinces to withdraw from major programs of this nature and to report from time to time to the federal government. Only Quebec took advantage of this provision.
- 1966 - Adoption by Parliament of the *Medical Care Act*.



- 1967 - The *Federal-Provincial Fiscal Arrangements Act* came into force. Henceforth, annual subsidies to universities, based on the number of residents, a provision first introduced in 1952, would be part of the fiscal arrangements envelope.
- 1975 - Imposition of a ceiling on the increase per resident in federal contributions to major cost-sharing programs; new formula for calculating equalization payments; new formula for calculating equalization payments, thus minimizing the impact of oil price increases.
- 1977 - All major cost-sharing programs, namely health care, hospital insurance and post-secondary education programs, now came under the *Federal-Provincial Fiscal Arrangements and Established Programs Financing Act*.
- 1978 - In November, Finance Minister J. Chrétien announced changes to the equalization formula. Unless changes were made, Ontario was expected to become a "have-not" province within a year.
- 1981 - Creation of a parliamentary task force to examine programs covered by the *Fiscal Arrangements Act*. Tabling of report in August.
- 1982 - Tabling and adoption of Bill C-97, An Act to amend the Federal-Provincial Fiscal Arrangements Act and Established Programs Financing Act, 1977. It brought to 33 the number of revenue sources, established the representative five-province standard as the equalization formula standard and imposed a floor and a ceiling on equalization payments.
- 1984 - Adoption of the *Canada Health Act*, which replaced the *Hospital Insurance and Diagnostic Services Act* and the *Medical Care Act*. Correlative changes were made to the *Fiscal Arrangements Act*, 1977, which became the *Federal-Provincial Fiscal Arrangements and Federal Post-Secondary Education and Health Contributions Act*, 1977.
- 1985 - The Main Estimates tabled in February called for a reduction in equalization payments. In April, federal Finance Minister Michael Wilson announced supplementary payments to the provinces; as a result of Bill C-39, the amount of the reduction dropped from \$390 million to \$207 million.
- 1986 - Bill C-96 was passed by the House of Commons on 19 June 1986. It limited the rate of growth of federal transfer payments for health care and post-secondary education.
- 1987 - Bill C-44, an Act to amend the Federal-Provincial Fiscal Arrangements and Federal Post-Secondary Education and Health Contributions Act, 1977, received

Royal Assent on 14 April 1987. It renewed the fiscal arrangements until 31 March 1992.

- 1991 - Bill C-69, An Act to amend certain statutes to enable restraint of government expenditures, received Royal Assent on 1 February 1991. A freeze on EPF transfers, per capita, was imposed for 1991 and 1992.
- **Bill C-20, An Act to amend certain statutes implementing the budget tabled in Parliament on February 26, 1991, received Royal Assent on 17 December. This legislation maintains the existing freeze on EPF transfers until 1994-95.**

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